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THE ROLE OF SELECTED EDMONTON PROFESSIONALS  
IN THE BUSINESS FORMATION PROCESS

BY



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A THESIS

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The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies for acceptance, a thesis entitled "The Role of Selected Edmonton Professionals in the Business Formation Process", submitted by D. Alan McGeachy in partial fulfilment of the requirements for the degree of Master of Business Administration and Commerce.



## ABSTRACT

This thesis examines the role of certain selected professionals in the business formation process. Many small ventures fail within a short time period after the formation with a heavy economic cost.

Previous studies have shown that the accountant, lawyer and banker are an important source of information for the entrepreneurs during the formation process. This study, a replication of an existing research project, examines the role of selected Edmonton professionals in the business formation process. The problem is approached by analysing the perceptions that various professional groups have of how they are involved in the formation process.

The study found that the professionals play varying roles in the formation process. The role of each group of professionals is analysed and compared to the original study. The entrepreneurial reasons for differences and their effect on the formation process are examined.

The study permitted some differentiation of the characteristics of entrepreneurial behavior.

The study concludes with recommendations to encourage a more successful formation process.



## ACKNOWLEDGEMENTS

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## CHAPTER 1

### INTRODUCTION

The entrepreneurial process has long remained a mystery. The formation of a business was assumed to "happen". Little thought or study has been given to the actual process, instead attention has been directed at the results of the formation.

During the last decade amongst countries, the United States Government has been supportive of a great deal of research into all aspects of small business operation. Some of the results of these studies indicate that problems do exist in all stages of business operation including the formation stage. Drawing on some results from this sponsored research, this study examines selected aspects of the formation process in the Edmonton area.

### PURPOSE

This study has two primary purposes. First it is designed to replicate one conducted in the State of Washington which examined the role of certain professional groups in the business formation process.<sup>1</sup>

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<sup>1</sup>Robert T. Woodsworth, and others, The Entrepreneurial Process: The Role of Accountants, Bankers and Lawyers (Seattle, Washington: The Graduate School of Business Administration, University of Washington, 1970), pp. 1-165. Note the research project was sponsored by the United States Department of Commerce, Economic Development Administration. Permission to duplicate the study was granted by Dr. E. J. Chambers, one of the authors. Hereafter, in the body of the paper, this study will be referred to as the original study.



Through comparison with findings of this previous study international and regional differences and/or similarities may be delineated. Are the findings of the United States study similar to the one undertaken in the Edmonton area? Are the attitudes between the businessmen of the two countries similar? Does Canada have the same basic problems as the United States? This study will not conclusively answer the above questions but it should give insights into these issues. In Canada there has been very little research conducted into the operation of established businesses let alone into the formation process. The Edmonton study should also indicate some of the areas where more local research is required.

The second objective is to gather general data about the local business community. Some of the questions used in the questionnaire are not directly concerned with the formation process. However, they can be related to many existing studies to determine the presence of similarities or differences. For example, some of the opinions sought concern factors affecting location, solutions to business failure and the type of financing used by new firms. This general data may help establish some of the characteristics of Edmonton business thus aiding future studies.

#### THE IMPORTANCE OF THE SMALLER FIRM: SELECTED STATISTICS

The role played by small business in the Canadian economy is unknown. Generally, Canadian statistics, regarding the size of a firm,





are not kept.<sup>2</sup> Consequently, when an attempt is made to justify the importance of the smaller firm, the data are a mixture of American and isolated Canadian statistics. These do serve to show general trends which imply the importance of the small firm.

It is clear that the smaller firm is important to the provincial and federal economy. For example, small manufacturing firms (under 50 employees) in Alberta accounted for 90% of the firms, 32% of the employees, 27% of the salaries and 26% of the value added in 1964.<sup>3</sup> The portion of economic activity in Alberta accounted for by the small firm is above the national average.<sup>4</sup>

The importance of small business is perhaps even greater outside of the manufacturing sector. In a study of United States industry, small firms accounted for 77-99% of total firms, employed between 29-75% of all employees, and 21-66% of the value added.<sup>5</sup> The evidence indicates small

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<sup>2</sup>It should be noted that an attempt was made to justify the importance of small business in Canada. Unfortunately in Canada, information is not generally gathered showing the necessary breakdown by business size. This fact was verified in interviews with the Alberta Bureau of Statistics and the Edmonton Development Department and by telephone with the Dominion Bureau of Statistics in Ottawa. Consequently much of the information presented will be based on United States data. It is assumed the Canadian data will be different but the trends, ratios and percentages should be similar. The Canadian data used is from selected industries. This data therefore cannot be used to draw conclusions, but can be used to imply some of the general roles played by the smaller firms.

<sup>3</sup>Dominion Bureau of Statistics, Manufacturing Industries of Canada, No. 31-210 (Ottawa: D.B.S., 1964), p. 48 and 65.

<sup>4</sup>Ibid.

<sup>5</sup>Edward B. Shils, "Small Business: Its Prospects and Problems," Current History, 48 (July, 1965), p. 37.



business to be important in all industries, especially in the services.

The few selected statistics indicates that the small firm accounts for approximately one third of the economic output of the provincial or federal economy. Although the evidence is limited, the data supports a concern for the small firm.

This concern is further justified because the failure record of small firms has been substantial in the past. Canadian firms with liabilities of under \$50,000 accounted for 72% and 76% of the reported bankruptcies in 1967 and 1968 respectively.<sup>6</sup> These figures would, in all probability, be much higher if they took into account the number of firms not declaring bankruptcy.

There is some evidence of the life span of businesses which fail.

TABLE 1

AGE OF 1967 CANADIAN FAILURES

(The year in which the concerns that failed in 1967 started in business)

Starting Year	Percent
1967	3.7
1966	12.3
1965	14.6
1964	13.4
1963	9.5
1962	7.2
1961	5.9
1960	4.5
Prior to 1960	28.9
Total	100.0

Source: Abstracted from Research Division, Dun and Bradstreet of Canada Limited, Toronto, 1967.

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<sup>6</sup>Dominion Bureau of Statistics, Commercial Failures, No. 61-002, (Ottawa: D.B.S., 1968), p. 7.



It appears to be quite short. Table 1 shows that approximately 54% of the Canadian firms who filed for bankruptcy had been in business for less than 5 years. The Mayer Goldstein study indicated approximately 40% of the businesses failed after two years.<sup>7</sup> Hoad and Rosko, in a similar study found a failure rate of 35% in 3 years.<sup>8</sup> The high rate of early failure indicates the importance of the formation process. If the formation process has been thoroughly planned, it should enable a firm to anticipate many short to medium run problems.

Studies conducted in the United States indicate the economic importance of the smaller firm is likely to remain.<sup>9</sup> It is assumed this situation will also prevail in Canada. Accordingly, an attempt should be made to understand the problems common to the smaller firm, thereby lowering the economic and social cost of business failure.

## REVIEW OF THE LITERATURE

When considering new business formation, one is primarily concerned with small business. As stated previously approximately 85-95% of all business enterprises are classed as small. Though small business is numerically large and diverse, little research has been conducted. Much of that recorded has been sponsored by the Small Business Administration

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<sup>7</sup>Kurt B. Mayer and Sidney Goldstein, The First Two Years: Problems of Small Firm Growth and Survival, Small Business Research Series No. 2 (Washington, D.C.: Small Business Administration, 1961), p. 57. Hereafter the Small Business Administration will be referred to as S.B.A.

<sup>8</sup>William M. Hoad, and Peter Rosko, Management Factors Contributing to the Success or Failure of New Small Manufacturers (Ann Arbor, Michigan: Bureau of Business Research, Graduate School of Business Administration, University of Michigan, 1964), p. 50.

<sup>9</sup>R. R. Nathan, "A Future for Small Business," Business Week, July 31, 1965, p. 35.; and Ross D. Davis, "Small Business in the Next Decade," Advanced Management Journal, 31 (January, 1966), p. 5.





in the United States. This agency has sponsored, through universities, a series of studies with much of the research being conducted in the early sixties. These research studies (approximately 230) yielded a totally new perspective of small business and constitute the main body of empirical knowledge about this institution. Prior to these studies, there was little objective evidence on small business operation. The following review of literature is based primarily on the S.B.A. studies. A major problem about these studies for our purposes is the transferability of the findings to the Canadian setting.

#### THE ROLE OF THE PROFESSIONAL

Unfortunately there have not been any studies directly concerned with the role of the professional in the formation process. Where research has occurred emphasis has been upon the role of certain professionals after the business is in operation rather than during the formation process.<sup>10</sup>

It is assumed that the banker is important in the formation process. The literature stressed that businessmen should have a good working relationship with their banker plus an understanding of the range of services he provides.<sup>11</sup> These are presumptions with the role of the banker, not established by empirical research.

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<sup>10</sup>The following are Management Research Summaries (MRS) published by the Small Business Administration. L. J. Crampon, and Stewart F. Schweizer, "Use of Outside Information in Small Firms," MRS #56; Raymond W. Hooker, "Attitudes of Bankers Toward Small Business Financing," MRS #94; David C. Ekey and W. David Robbins, "The Use of Consultants by Manufacturers," MRS #190.

<sup>11</sup>James A. Cashin, "Building Strong Relations with your Bank," Small Marketer Aids, No. 107 (Washington: S.B.A., 1964), pp. 1-4.





Some research has studied the role of the legal profession in a small business. The complexity and diversity of the law dictates the need for legal assistance. Lawyers counsel the small businessman on many aspects of business operation: form of organization, acquisition of property, borrowing money, tax planning, employer-employee relations, litigation, credit problems and disposing of the business.<sup>12</sup> A study conducted by Marcus and Chambers found small businessmen are likely to consult with a lawyer when they are faced with: (1) litigation, (2) complex transactions and (3) transactions involving large sums of money which may be lost because of legal inadequacies.<sup>13</sup> Consultation with legal authorities should be limited to the legal aspects and not likely to be used in solving general problems of the firm.<sup>14</sup>

The role of the accountant in the formation process is generally unknown. Many articles are available expressing the importance of the accountant, but the amount of actual research validating the importance is limited. The accountants and the business community are enlarging the accountant's role to include providing various management services to clients even though this role change is a source of disagreement among accountants themselves.<sup>15</sup>

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<sup>12</sup>Charles W. Laughlin, "Legal Services for Small Retail and Service Firms," Small Marketer Aids, No. 118 (Washington: S.B.A., 1965), p. 1.

<sup>13</sup>Summer Marcus, and Edward J. Chambers, "How Small Firms Handle Their Legal Problems," Management Research Summary, No. 149 (Washington: S.B.A., 1963), p. 1.

<sup>14</sup>Theodore Voorhees, "Selecting A Lawyer for your Business," Management Aids for Small Manufacturers, No. 8 (Washington: S.B.A., 1962), pp. 66-73.

<sup>15</sup>G. L. Murray, "Management Advisory Services for Small Clients," New York Certified Public Accountant, Vol. 36 (September, 1966), p. 671.



# ENTREPRENEURIAL BACKGROUND: A SELECTED REVIEW OF THE LITERATURE

This review of the literature was undertaken because some professionals interviewed expressed opinions about the background of entrepreneurs. These opinions may be compared with the research findings of this study.

Selected studies have attempted to classify the background and experience of entrepreneurs. Lipset and Bendix found the aspirations of people wanting to enter business were stronger among the blue collar workers than those in white collar occupations.<sup>16</sup> The authors felt aspirations were higher in blue collar workers because business was one of the easiest methods available for attaining higher status. This fact was confirmed by the Mayer and Goldstein study in which they found approximately two thirds of the people entering business, in their sample, had manual experience and about 40% had done nothing but manual work.<sup>17</sup>

The educational background of entrepreneurs varied widely in the Mayer and Goldstein study. They found that the group comprising eight years or less education, were older immigrants or first generation Americans.<sup>18</sup> The median education of the group was 11.0 years of schooling. People with 12 years of schooling or less accounted for 74% of the sample. A study conducted by Lesikar supported the above findings.<sup>19</sup>

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<sup>16</sup>Seymour M. Lipset, and Reinhard Bendix, "Social Mobility and Occupational Career Patterns," American Journal of Sociology, (March, 1954), pp. 501-503.

<sup>17</sup>Mayer and Goldstein, The First Two Years, p. 57.

<sup>18</sup>Ibid., p. 25.

<sup>19</sup>Raymond V. Lesikar, "Education for Leadership in Small Business," Management Research Series, No. 36 (Washington: S.B.A., 1961), pp. 1-4.



The Mayer and Goldstein study found that generally new business organizations were undercapitalized. Several factors account for this. First, the preoccupation of literature with capital requirements was heeded by only one of ninety three businessmen. Second, businessmen did not have the ability to use or understand whatever capital investment information was available. Third, the study indicated the whole capitalization process was largely trial and error. Fourth, the majority of funds (52%) was supplied by the entrepreneurs savings.<sup>20</sup> The study concluded that capitalization problems were a result of a small initial investment and the inability of the owners to draw upon their personal investment in a time of crisis.

Mayer and Goldstein also examined the motivational influences of new entrepreneurs. Their study, based on eighty one firms, indicated non monetary rewards contribute heavily as motivational factors. Only 17% of those surveyed entered business for the "classical" reasons. This term is used later in the study and refers to economic theory where the individual receives economic reward for his labour plus a return on his invested capital. The largest percentage (40%) entered business solely as a method of making a living and are described later as "job seeking". In these cases, business is not fundamentally different in nature from a paid job. The study showed 34% of the respondents gave independence as a secondary reason for going into business.<sup>21</sup> The study concluded that:

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<sup>20</sup>Mayer and Goldstein, The First Two Years, pp. 50-55.

<sup>21</sup>Ibid., p. 33.





When an examination is made of how the decision was reached both for going into business at all and for selecting a particular line, one factor becomes increasingly clear; most of these owners merely let themselves be swept along by chance occurrences and accommodated themselves to these occurrences by spur-of-the-moment decisions. It is true that many of them had toyed with the idea of going into business for themselves, and a number had actually owned business previously, but very few individuals had made a definite decision to go into business until confronted with a concrete opportunity to do so.<sup>22</sup>

Previously in this chapter, it was indicated that business failures reach their most critical proportions within the first five years of operation. This suggests that many of the problems appear early, possibly even before the business opens. A possible explanation of this early problem is that prospective entrepreneurs are prompted to enter business by a sudden emotional desire for independence or an unexpected business opportunity, viewed as a "once in a life-time" chance.<sup>23</sup> Lack of adequate preparation was found in a study conducted by Hoad and Rosko based on ninety five firms.<sup>24</sup> The authors found the majority of businessmen do not prepare in advance even though they may not be qualified to operate the new business. The study indicated 12% of the firms did not plan at all, 36% planned for less than 3 months and 53% planned for 6 months or less.<sup>25</sup>

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<sup>22</sup>Ibid., p. 37.

<sup>23</sup>A. D. H. Kaplan, Small Business: It's Place and Problems (New York: McGraw-Hill Company Inc., 1948), pp. 66-68; and Pearce C. Kelly, Kenneth Lawyer, and Clifford M. Baumbach, How To Organize and Operate A Small Business, (4th edition; Englewood Cliffs, New Jersey: Prentice Hall Inc., 1961), p. 26.

<sup>24</sup>Hoad and Rosko, Management Factors Contributing to the Success or Failure of Small Manufacturers, p. 65.

<sup>25</sup>Ibid.





The fact that small entrepreneurs enter into the formation process with inadequate knowledge, experience and planning does not mean they will seek advice from professionals. Hoad and Rosko found of the 95 firms studied, they obtained a total of 52 consultations from a possible 570. In general, the 10% of the firms who did receive outside help benefited from it. The successful firms reported 85% of the consultation while the unsuccessful firms reported 15%. The majority of the consultations were with accounting firms.<sup>26</sup> In a different study, Morrison found less than 1% of small business obtain management counselling.<sup>27</sup>

Possible reasons for not seeking advice have been isolated in various studies. Morrison felt small firms were unable to pay the cost; did not know what services existed and could not implement the counsel given.<sup>28</sup> In addition to the above, Pomeranz and Prestwich found small businessmen do not recognize the problem until it is serious, and they feel that asking for advice is an admission of personal inadequacy.<sup>29</sup> White is of the opinion that small businessmen refuse help because of their independent nature.<sup>30</sup> This belief is supported by Kelly and Lawyer:

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<sup>26</sup>Ibid., p. 74.

<sup>27</sup>Karl Morrison, "Management Counseling of Small Business," Management Research Summary, No. 123 (Washington: S.B.A., 1963), p. 2.

<sup>28</sup>Ibid.

<sup>29</sup>Janet M. Pomeranz, and Leonard W. Prestwich, "Outside Management Counsel for Small Business," Management Research Summary, No. 95 (Washington: S.B.A., 1967) p. 7.

<sup>30</sup>Whitford L. White, "Can Small Business Be Saved?" Advanced Management Journal, (January, 1966), p. 37.



It has often been said that the chief problem of the independent businessman is his independence. Small business ownership does attract an independent, self-reliant type of person--one less likely to seek advice and assistance from those of greater experience and know-how. Often the biggest problem is to get the independent to appreciate his need for outside assistance, and then be willing to take the time to profit by it.<sup>31</sup>

In a study conducted by Wickenberg, the findings showed companies hire various professionals for consultation in a systematic order that is dependent upon the companies sales and number of people employed. The study showed that as sales and employees increased the number of consultants increased in the following order: (1) auditing, (2) legal, (3) personnel, (4) advertising, (5) labour relations, (6) accounting and (7) market research.<sup>32</sup>

The "typical" entrepreneur can be reasonably well characterized. Studies have examined his education, motivation, personality, background, etc. How he operates his business, what his strengths and weaknesses are and reasons for success and failure are all fairly clear. Unfortunately, little attention has been given to the use of outside professional help for problem solving. Very few studies have examined this role in the context of the business formation process.

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<sup>31</sup>Kelly, Lawyer and Baumbach, How To Organize A Small Business, p. 27.

<sup>32</sup>A. K. Wickenberg, "Organization Patterns in Small Business," Management Research Summary, No. 12 (Washington: S.B.A., 1961), p. 1.



## CHAPTER 2

### THE ORIGINAL STUDY

#### HISTORICAL BACKGROUND

The study which is replicated in this paper was part of a two stage research project. The first stage analysed the formation process using new entrepreneurs as the source of information. This study found certain groups exterior to the business to be prominent in the formation process. These were bankers, lawyers and accountants. The entrepreneurs indicated they sought professional help from these groups at different stages in the formation. It appeared that timing of professional contacts, the quality of these contacts and the entrepreneur's ability to implement the advice were critical to successful formation.

The second stage (the one replicated) attempted to examine the role of these professionals in greater detail. It analysed the role of the banker, lawyer and accountant in two Washington counties. The study sampled professionals in the three groups and conducted extensive interviews with the individuals selected. The basic approach was to determine the professionals' role in the entrepreneurial process, and also with their perception of the prospective entrepreneur, the stages in which he seeks professional contacts, the type and number of these contacts, the services asked for, and the services rendered. Other questions attempted to gather data of a general nature. By combining specific and general questions, a view was formulated on the total entrepreneurial process as seen by the professional.





Analysis of the data enabled certain generalizations:

- (a) The professionals could be classified as either active or passive depending on their role in the formation process.
- (b) Each group of professionals saw their role as being unique or different from other groups.
- (c) Prospective entrepreneurs fail to realize the need for assistance, the services available and how or when to use these services.
- (d) The value of professionals is partially limited by the need to conform to certain professional standards.
- (e) The professionals appear uninterested in the inter-professional flow of information which may help to make their advice more meaningful.

The study found that the matters reflected in the above generalizations resulted in gaps in entrepreneurial access to relevant information.

#### METHODOLOGY

The Edmonton study is a replication of a study which examined the role of the accountant, banker and lawyer in the entrepreneurial process. In order to obtain results which can be fully compared with the original data, it would be necessary to duplicate all aspects of the original study. This unfortunately was not possible because national and regional differences required certain changes to be made.

The sample design of the original study was modified slightly (for a detailed description of the Edmonton sample design, please refer to Appendix A p. 67). Changes in the accountants' sample were necessary because different professional classifications exist between Washington and Edmonton. In the United States, accountants can be divided into





general accountants, Certified Public Accountants (C.P.A.), and Licensed Public Accountants (L.P.A.). In Canada, there is no accounting group similar to the L.P.A. The Canadian accountants in public practice are either General Accountants or Chartered Accountants. Therefore, these two groups provide the accounting sample for this study.

Differences between the banking structure of the two countries caused a slight revision in the sample design for bankers. The Canadian banking community consists of five major institutions--Royal Bank, Canadian Imperial Bank of Commerce, Toronto-Dominion Bank, Bank of Montreal and Bank of Nova Scotia. In addition the Alberta Treasury Branch provides banking services. Since the number of firms involved was small, one main branch or divisional office and one branch office of each firm was selected (see Appendix A).

The questionnaire was changed for the Edmonton study. Part of the data collected for the original study included information requested by clients and its frequency, type of information provided, etc. This data was not used in the report of the original study because the professional responses to this section were considered inadequate and unreliable. For these reasons this particular section of the questionnaire was deleted.

Once the sample was drawn, appointments for interviews were established. The interviews were based on a uniform questionnaire, thus permitting some continuity between groups. The interviews lasted on the average approximately fifty minutes, with a range between twenty minutes and two hours. In general, the respondents interest in the subject led to a good interview in which the professional freely expressed his opinion. The questionnaire contained both open-ended and directive type of questions.



Many questions requested a numerical answer. Others asked the respondent to give his opinion. The questionnaire covered four main sections. Section one examined the stage of business development and means of contact between the prospective entrepreneur and the professional. The second section was an open-ended question and aimed at how the formation process could be improved. The third section examined the professionals view of the prospective entrepreneur. The last section dealt primarily with the professional's views of business success and failure.

The responses of the professionals were recorded and coded for computer analysis. A computer program was designed specifically for the questionnaire used, allowing comparability of data, with that obtained in the original study. By using the computer to analyse the responses, greater flexibility in the results were allowed. For example, the responses to each question were categorized by two different methods. First, the responses of each professional interviewed were weighted equally. No distinctions were made based on the number of formations that the individual had been involved in. The second method of data presentation used the experience of the respondent as a weighting factor. This experience factor was based on the professionals estimation of the number of formations he had been involved with during the last three years. It is assumed that the weighted results would give a better assessment of the situation. Therefore, these results were used in the tables. This method of data presentation was selected for two primary reasons. First, the sample sizes of the groups were small; secondly, as the weighted results were based on the experience of the respondents, it should allow a better generalization of the existing situation in the local formation procedures. For example, one respondent has just opened his practice and had been



involved in five business formations while another respondent had been involved in as many as three hundred formations. It is assumed that knowledge of the formation process will increase with the number of formations the professional has experienced.

Statistical analysis of the data was not attempted because it was impossible to estimate properties of the population that would allow a proper sample size to be selected. The major concern was to gather data and make inferences to provide the basis for further research into small business. The bulk of the responses is in percentage figures but the results can be used for comparison with the original study and for general inference of the conditions existing in the Edmonton professional community, with respect to their role in the formation process.





## CHAPTER 3

### ACCOUNTANTS

This chapter will analyse the role of the accountant in the entrepreneurial process. His opinion is of primary importance to the study of the entrepreneurial process because of the continuing service he provides for his clients. The accountant usually sees his clients at least once a year (year-end statements and tax reports) whereas the association with lawyers or bankers may not be as frequent.

In Alberta, the accountants are divided into three main groups. The Chartered Accountant (C.A.) practice is governed by the Alberta Chartered Accountants Act and the Institute of Chartered Accountants of Alberta. These two Acts provide the by-laws and ethics under which the C.A. must comply. This group is referred to in the results of the questionnaire as the C.A. firm.

A second group are the general accountants. They do not have an association or restrictions on practice other than those governing any normal business.

A third group are industrial accountants (R.I.A.). The R.I.A.'s are similar to the C.A.'s in that they have an association that governs their entrance requirements, education, ethics, etc. Because the group does not participate in public practice but rather is trained for work in industry, they were not included in the sample.





## THE GENERAL ACCOUNTANT

The general accountants are quite different from the C.A.'s since they have no restrictions on entry and no educational or training requirements. Their practice is usually small (one man) built up from the part-time work. As a rule, this group is more concerned with bookkeeping than the theoretical implications of financial statements.

Assuming a new business will seek the professional help of an accountant, the question arises as to how and at what point a new entrepreneur selects an accounting firm.

TABLE 2

### HOW ENTREPRENEUR'S CHOOSE THEIR ACCOUNTING FIRM (in percent)

	Prior Association	Recommendation by an Individual	Phone Book	Organizational Referral	Other
General Acc.	9.8	44.2	7.4	30.2	8.4
C.A.	25.0	17.3	2.7	50.9	4.1

From Table 2, it is evident that satisfied customers are the best means of advertising. Prior association and referrals account for 93% of the C.A.'s business and 84% of the general accountant.

Several inferences may be drawn from Table 2 which indicate the difference between the general accountant and the C.A. A major area of difference is in the importance of prior association as a means of obtaining new clients. The original study (p. 21) found that prior association was not as important for the general accountant as the C.A. The same fact is evident in this study. Prior association accounts for 10% of the general accountants but 25% of the C.A. clientele. This may indicate that the general accountants clients are involved in their first or only business



venture whereas the C.A. caters to clients already in business. This fact is supported by Table 3.

TABLE 3

ACCOUNTANTS ESTIMATION OF PROSPECTIVE ENTREPRENEURS  
WHO HAVE BEEN ACTIVE IN THE FORMATION OF PRIOR BUSINESSES  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
General Acct.	0.0	0.0	0.0	28.0	72.0
C.A.	0.0	0.0	3.9	84.3	11.8

Table 3 indicates that very few people form more than one business with the help of a professional accountant. If they do happen to form more than one business, they will seek the assistance of a C.A. rather than a general accountant. This indicates that the entrepreneur has a tendency to change from seeking the help of a general accountant to a C.A. if future businesses are to be formed. Table 3 shows that 3 times as many C.A.'s (88%) felt their clientele had been active in the formation of more than one business "sometime", as opposed to 28% for the general accountant. These findings are similar to the original study (p. 22). The original study indicated, that more U.S. business formations are started by people, who have been active in prior businesses, than was found in the Edmonton study.

The original study and the Edmonton study differed slightly in the categories "individual referral" and "organization referral". The Edmonton study used organizational referral to indicate any business referral. The original study (p. 23) used institutional referral in place of organizational referral and limited the responses to all businesses except lawyers. These reponses were placed in the "individual



referral" class. This difference makes comparison of the individual percentages difficult but the overall results are similar.

During the interviews, many lawyers and C.A.'s indicated they had working relationships with each other involving mutual referral. This situation was not evident with the general accountants. Table 2 indicates that general accountants rely on individual referrals 44.2% of the time (as opposed to the C.A.'s 17.3%), but they obtain new business clients from organizational referral 30.2% of the time (the C.A. relies on organizational referrals 50.9% of the time). The C.A. places greater emphasis on referrals from other organizations than the general accountant.

The categories classed as "phone book" and "other" in Table 2 account for small percentages in both cases but are more important to the general accountant (15.8%) than the C.A. (6.8%). The difference between the two is largely due to advertising. The general accountant is allowed to advertise the services he offers. The C.A. cannot advertise because of his code of ethics. The ability to advertise may account for the fact, that the general accountant appears to receive more first time entrepreneurs than the C.A. It is possible that the "first time entrepreneur" views the accounting services offered by the C.A. and the general accountant as similar and therefore because of advertising the general accountant is able to entice more "first time clients". This conclusion supports the findings of the original study.

The next area that showed a difference between the two accountant groups was the stage in which the entrepreneur made initial contact.





TABLE 4

STAGE OF FORMATION IN WHICH THE ENTREPRENEUR CONTACTED ACCOUNTANT  
(in percent)

	Stage 1	Stage 2	Stage 3	Stage 4
General Acct.	1.2	4.2	33.8	60.8
C.A.	14.2	14.5	36.7	34.6

The stages that are referred to in the above study are:

Stage 1, having the idea but there has been no decision to go ahead;  
Stage 2, has decided to go ahead but has not organized the business;  
Stage 3, has organized the business but has not made any sales; and  
Stage 4, has made sales.

The data in Table 4 indicates that a relatively small percentage of prospective entrepreneurs seek assistance early in the formation process. The C.A.'s saw 28.7% of their clients in Stages 1 and 2 (5.4% for the general accountant) which appear to be the critical stages when professional assistance would be most beneficial. The data supports the original study (p. 25).

Table 4 also indicates that clients seek the help of general accountants later in the formation process. Only 39% of the general accountants felt their clients sought advice prior to making a sale (this is opposed to 62.5% for the C.A.). The fact, that general accountants obtain their clients later in the formation process, may be linked to earlier findings which indicate these people to be "first time" entrepreneurs.

Overall Table 4 indicates that few new business formations receive proper accounting information prior to their opening. Again these findings support the original study.





The Edmonton study indicated that a new entrepreneur places a greater dependence on his general accountant as a source of information than a client of a C.A. does. Table 5 lists the percentage responses of general accountants and C.A.'s when asked if their clients contacted the following list of possible information sources. Only the responses in the "almost never" category have been tabulated.

TABLE 5

ACCOUNTANTS IMPRESSIONS OF THEIR CLIENTS INFORMATION  
SEARCH PROCESS  
(in percent)

	Almost Never Contacted	
	General Acct.	C.A.
Lawyers	0	0
Bankers	0	0
Management Consultants	100	100
Other Individuals	20	0
Other Business	60	7
Chamber of Commerce	100	73
Industrial Councils	68	72
Industrial Development Bank	36	0
Local Development Organization	88	55
Alberta Commercial Corporation	100	46
Economic Research Branch (Prov. Govt.)	100	87
Industrial Development Corporation (Prov. Govt.)	100	86
Department of Trade and Commerce	60	65
Other Federal Agencies	60	50
Universities	88	81

Table 5 indicates that the general accountants felt their clients "almost never" sought out advice from other possible sources. The C.A. response was lower than the general accountant but still showed that very few of their clients had conducted adequate search processes. The implication from Table 5 is that clients of general accountants obtain information mainly from their accountant. This further supports the earlier contention that clients of general accountants are probably "first time" entrepreneurs and had little knowledge of the search process for



information.

The Edmonton study further indicates the general accountants responses were not as varied as the C.A.'s. The range of responses to the questions, "How did clients contact you?" and "At what stage in development were they?", were smaller for the general accountant. This indicates that the clients of the general accountant are similar. For example, most entrepreneurs contacted their general accountant as a result of a referral, and virtually all of them, after they had opened their business. This similarity was not as evident with the clients of C.A.'s.

The difference in clientele between the general accountant and the C.A. is further evidenced in the educational background of the entrepreneurs. Table 6 indicates that as the level of education of the client increases the probability of contacting a general accountant decreases. This is shown by the fact that 60% of the general accountant's responded by stating their clients "almost always" or "very often" had grade 8 or less (C.A. response was 11.6%).

TABLE 6

ACCOUNTANT'S PERCEPTION OF CLIENTS  
EDUCATIONAL BACKGROUND  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
8 years or less					
General Acct.	20.0	40.0	0	40.0	0
C.A.	0	11.6	23.3	42.7	22.4
12 years or less					
General Acct.	0	28.0	52.0	20.0	0
C.A.	11.6	62.9	25.5	0	0
Attended University					
General Acct.	0	0	0	0	100.0
C.A.	0	0	37.1	62.9	0



In the last category which was, "attending university", the general accountant indicated 100% of the time his clients, "almost never", had this type of training (C.A. response was 0%).

The responses between general accountant and the C.A. in the first five tables, generally, agree with the original study. The inferences which were drawn from the original data were supported by the Edmonton study.

The Edmonton study indicates three other prevalent differences between the entrepreneurs that seek advice from a general accountant than those seeking advice from a C.A. The first is indicated by Table 7 which shows that the clients of general accountants are more likely to be individual people. In comparison the C.A.'s indicated that their clients are groups of people or other businesses that started a new firm. Eighty percent of general accountants (41% for C.A.'s) indicate their clients were "very often" individuals rather than groups or other businesses.

TABLE 7

ACCOUNTANT'S PERCEPTION OF WHERE THE IDEA TO START  
A NEW BUSINESS CAME FROM  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Single Person					
General Acct.	0	80.0	0	20.0	0
C.A.	0	41.3	15.5	43.2	0
More Than One Person					
General Acct.	0	20.0	40.0	40.0	0
C.A.	0	35.6	39.8	24.7	0
Another Business					
General Acct.	0	0	0	40.0	60.0
C.A.	0	11.8	3.9	68.9	15.4





The percentages in Table 7 further supported the theory of the general accountant dealing with a "first time" entrepreneur. As the entrepreneur became more sophisticated and knowledgeable in business operations he, probably, began to rely to a greater extent upon the C.A. for professional advice.

The second area, where a major difference between the two types of accountants existed, was in the length of the planning period prior to the firms first sale. Table 8 indicated that the entrepreneur who sought the advice of a general accountant had an average planning period, prior to making the first sale, of 2.2 months. The similar client of a C.A. plans 9.3 months or approximately 4 times longer.

TABLE 8

LENGTH OF PLANNING PERIOD OF BUSINESS STARTS  
(in months)

	Average Length	Number of Firms
General Accountant	2.2	125
C.A.	9.3	644
Average Response	5.8	2707

The average planning period of clients of all respondents was 5.8 months or better than double the time of the entrepreneur who sought the advice of a general accountant. This large time difference may be partially explained by two factors. First, the general accountant is involved, usually, very late in the formation process (Table 4, p. 22) and therefore does not know the actual length of the planning period. The second, and probably most valid reason, is the general accountant attracts a "first time" entrepreneur who does not realize the value of planning, therefore rushes into business without the proper background





information upon which he can base his decisions.

The third difference the Edmonton study found was the experience of the entrepreneur. Table 9 shows that 100% of the general accountants estimate their clients "very often" had work experience (C.A. 62%). Although neither group dealt extensively with clients who had formed other businesses, the C.A. clearly had more of these people than the general accountant. Seventy-two percent of the general accountants indicate their clientele "almost never" had formed more than one business while the C.A. response was only 12%.

TABLE 9  
BACKGROUND OF ENTREPRENEUR  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Skilled					
General Acct.	40.0	16.2	44.0	0	0
C.A.	6.2	55.1	38.7	0	0
Work Experience					
General Acct.	0	100.0	0	0	0
C.A.	2.3	59.8	37.9	0	0
Formation of Other Business					
General Acct.	0	0	0	28.0	72.0
C.A.	0	0	3.9	84.3	11.8

Based on the information previously presented, it is possible to summarize the typical situation of a "first time" entrepreneur who will eventually seek the help of a general accountant. It appears the idea to start the business comes from an individual. The individual probably will have little educational background but will have considerable work experience in the industry. The entrepreneur will lack the knowledge of proper business operation, but will be a competent worker. His



motivation, according to the general accountants interviewed, at the start of business will be the profit that his present employer is making on his efforts. Little thought will be given to running the business. Once he forms the idea to start the business, he will move rapidly. The planning period will probably be short. Due to a lack of education and business experience, little thought is given to searching for information upon which to base his decisions. He will open for business and operate until some crisis is apparent. Unable to solve the crisis, which he had not foreseen, he will seek the aid of a general accountant. How he chooses the general accountant is not really known, but some reasons, based on the interviews conducted, may be found in the following sections.

First, since he is relatively unsophisticated in his approach to business, he may be susceptible to advertising conducted by general accounting firms. At this point, in the business formation process, he may envision all accounting firms as offering the same service. He may not recognize the difference between the various accounting classes such as bookkeeper, C.A., R.I.A. or C.G.A.

Second, the new entrepreneurs generally are undercapitalized and have already committed their funds. These two financial handicaps will probably force the entrepreneur to seek help for the lowest possible fee, and the general accountant's fee structure is usually lower than the C.A.

A third reason for seeking the aid of a general accountant, was mentioned by the C.A.'s during the interviews. The C.A. profession does not enjoy a good public image thus limiting the number of prospective "first time" entrepreneurs. The C.A.'s felt the public, in general, does not understand the role of the C.A. and believes the fee structure



too high. These two factors combined, if they do represent public opinion, may cause the "first time" entrepreneur to seek the advice of a general accountant.

Up to this point, the factors leading to the decision to seek help have been examined together with some possible reasons for the choice. One must now examine what the accountant provides for this new entrepreneur. From the study it became apparent that the accountant could be classed as active or passive (classification based on original study). If he is passive, he will provide only the accounting services required and that is all. In many cases, the accountants indicated the entrepreneurs problems were insoluble and the only service the accountant could provide was to attempt to straighten out the records prior to termination of the business. The active type of accountant, in contrast, will become involved in all aspects of the business not just the accounting function. He will look upon his association with the entrepreneur as more of a partnership than a client-professional basis.<sup>1</sup>

If the general accountant is an activist, and becomes involved, he will, in all probability, be the only professional service the entrepreneur will seek. The general accountant, it appears, is not referred to by many people, and does not refer clients to other specialists. He will give advice in all areas of business. For example, one general accountant did incorporations for clients, because his fee was less than a lawyer.

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<sup>1</sup>The only restriction on the above two classifications is the general accountant who specializes in certain types of industrial accounting. In the Edmonton sample, one firm specialized in farm accounting and another in the construction industry accounting. These firms did accept other clients but believed they were better qualified in the particular areas.





Whether this type of advice is helpful is difficult to evaluate. If, as the study indicates, the general accountant is the only service the entrepreneur will seek, then possibly he is better off receiving this general advice. It is doubtful if he has the information himself and therefore, "some help is better than no help at all".

The above section emphasized the role of the general accountant and how he differs from the C.A. The next section will examine the role of the C.A.

#### THE CHARTERED ACCOUNTANT

The Chartered Accountant (C.A.) is a nationally known accounting designation. This designation is conferred by the provincial institute under which the student is registered. There are ten provincial institutes with a common object of

...promoting and increasing by all lawful means, the knowledge skill and proficiency of its members in all things relating to the business or profession of an accountant, and to that end the Institute establishes classes, lectures and examinations and prescribes such tests of competency, fitness and moral character, as are thought expedient to qualify for admission to membership of the Institute.<sup>2</sup>

In addition to the provincial institute, there is the Canadian Institute of Chartered Accountants which

...acts as a co-ordinating organization for the Provincial Institutes, publishes the official journal of the profession, maintains a centre of research in accounting and auditing and offers continuing education courses to the member.<sup>3</sup>

It is evident from the above quotes that the C.A. is a relatively regulated and standardized certification in accounting. In addition to

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<sup>2</sup>Students' Information Handbook, The Institute of Chartered Accountants of Alberta, Edmonton, March 1, 1968, p. 4.

<sup>3</sup>Ibid.





the above, the Alberta Institute requires students entering the Institute to have, as of January 1970, a University degree. This means that the C.A.'s generally are well educated individuals who have met certain standards prescribed by their association.

The C.A. can be employed in industry, government or public practice. If an individual enters public practice, he will work in one of three general types of firms. First, there is the local C.A. firm which consists of the owner or partners plus a small group of students and possibly a limited number of staff C.A.'s. This type of office provides the local business people with the services they require. The office does not usually offer many advanced accounting techniques because their clients do not require or demand these services.

The next general type of firm, is the local C.A. with branch offices. This type of practice is considerably bigger than the first type. It serves the needs of regional clients, ie. clients with branch offices throughout the province and possibly neighbouring provinces. This type of practice deals with more sophisticated clients and therefore offers a more detailed type of service. Within this type of company one will probably find C.A.'s that have specialized in various aspects of accounting, auditing or tax.

The last type of accounting firm, is the national organization. These firms offer standardized services across the nation and are controlled by a head office which maintains many different types of staff services such as research, training programs and specialists in all areas of accounting work. The national firms cater to the larger companies with many branch offices that require a sophisticated type of accounting service.



Since the type of services offered by a C.A. firm varies greatly so does the clientele. In addition to the above differences, a firm may take an active or passive role in the formation and affairs of a new firm. The active C.A. will attempt to counsel his clients at all stages in the formation process and suggest referrals where necessary. The passive C.A. will provide only the services asked for and will not become involved in the new business to any other extent.

The standards which C.A.'s must meet should indicate that they are able to offer superior services for their clients but this does not necessarily mean that clients' needs will be satisfied. In the preceding sections it appears that the new entrepreneur is relatively unsophisticated, and for this reason the C.A. because of his background, may not be able to fulfill his needs.

The tables presented in the above sections have shown that the C.A. and the general accountant differ in many aspects. From Tables 2 and 3 (p. 19 and 20) it may be inferred that the C.A. had more existing clients starting up new business organizations than the general accountant. Table 4 (p. 22) indicated that the clients of the C.A. sought the accountant's services at an earlier stage in the formation process than did the clients of the general accountant. The C.A. also appeared to be dealing with people that had reached a higher educational level. The clients of the C.A. spend considerable more time planning their new business venture than the clients of other people interviewed; they are more knowledgeable than the clients of the general accountants.

The level of sophistication is further supported by Table 9 which shows how the accountants rank the motivation of their clients entering business. Table 10 indicates that 35% of the C.A.'s classified their



clients as "classic" entrepreneurs. "Classic" entrepreneurs are defined as those, whose motivation included not only an above average wage, but also a return on invested capital. The C.A.'s interviewed believed, in many cases, that their clients were aware of the dual aspect of entrepreneurial theory.

TABLE 10

ACCOUNTANTS PERCEPTION OF ENTREPRENEURIAL MOTIVATIONS  
(in percent)

	Job Seeking	By Chance	Classic	Other
General Accts.	36.8	6.4	20.8	36.0
C.A.	28.7	13.7	35.0	22.7

The "job seeking" classification, was used to group those individuals, who felt, that ownership of a business was an alternative to working for someone else. They choose their own business primarily as a means of supporting their family. Table 10 shows that the largest portion of new entrepreneurs are classed as "job seekers" but percentage response for the C.A. is much smaller than the general accountant. The accountants interviewed generally felt, that once the classical approach was explained to the owners, they were quick to realize the difference and change their opinion.

The "other" classification, was initially to include all responses, which could not be classed in the first three categories. It became evident, early in the interviews, that there is one very dominant "other" classification. Independence, was mentioned, in just about every interview, as one of the motivational forces for new entrepreneurs. The importance of independence, as an entrepreneurial motivation, is questionable. A study of Mayer and Goldstein indicated independence was a secondary





motivation subsidiary to the primary factors.<sup>4</sup> The Mayer and Goldstein findings, were not supported by either the original study or the Edmonton study, which both found independence to be of primary importance as a motivational force.

In previous sections, the referral practices of general accountants was discussed. Table 2 (p. 19) shows that the C.A. depends upon organizational referrals to a much greater extent than does the general accountant. The C.A.'s indicated 51% of their new entrepreneurs came from organizational referrals as opposed to 30% for the general accountants. Speculation as to why C.A.'s rely on referrals can be broken into three main areas.

First the C.A. realizes his limitations. When certain aspects of the formation process are beyond his technical limits, he realizes the importance of referrals. The C.A. probably realizes the long run benefits that may be obtained for his clients by obtaining legal and financial help. The original study (p. 45) favoured this type of reasoning.

The second reason the C.A. may depend upon referrals to a greater extent is because most other groups are involved in the formation process at an earlier stage than the C.A. Table 11 indicates this fact. It is reasonable therefore to assume that the bankers and lawyers will recommend accountants because they see the entrepreneurs earlier.

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<sup>4</sup>Kurt B. Mayer, and Sidney Goldstein, The First Two Years: Small Firm Growth and Survival Problems, Small Business Research series No. 2 (Washington, D.C.: Small Business Administration, 1961), p. 33.



TABLE 11

STAGE OF DEVELOPMENT IN WHICH PROFESSIONAL IS CONTACTED  
(in percent)

	Stage 1	Stage 2	Stage 3	Stage 4
Lawyers	17.0	27.3	28.6	27.1
C.A.	14.2	14.3	36.7	34.6
General Acct.	1.0	4.2	33.8	60.8
Bankers	9.6	21.4	30.2	38.7

The third reason is one which appeared subtly in the interviews and concerned the economics of business operations. It is economically better to refer clients because of the reciprocal agreements between C.A.'s and lawyers. Several people mentioned these "working arrangements" between the other professionals. These respondents were quick to point out the benefits to clients who received information from both professions. This, however, appeared to be a rationalization for the existence of the agreements.

Regardless of the reasoning for the referrals, it appears that professional referrals between lawyers, accountants and bankers form an important source of new clientele.

In summary, the Edmonton study supported most of the findings of the original study regarding the accountants role in the formation process. The study indicates the accountant is an important source of informational input for business operation. The role of the accountant is continuous which cannot be said of the other people. Many of the lawyers and bankers indicated their relationship with clients as irregular. They will see the client when he is in a crisis situation but rarely for consultation. The accountant usually sees his client at least yearly because of government regulations. The role of the accountant forces



him to be familiar with the total business. The other professionals may only see a very small portion of the company's activity which will be in their areas of specialized service. The study showed that the accountant is not used properly, or enough, in the formation process. This unfortunate circumstance may be a result of the lack of a search procedure on the part of the first time entrepreneur and a lack of public education concerning the role of the accountant.



## CHAPTER 4

### BANKERS

The second major group sampled were the bankers. For the method of sampling refer to Appendix A. In addition to the banking industry in Edmonton, there are two other primary lending institutions. These were sampled also. The Industrial Development Bank (I.D.B.), a Crown corporation, was developed, primarily, to provide capital assistance to smaller Canadian enterprises unable to obtain financing through regular channels under reasonable terms and conditions. This organization is enlarging its business and playing an increasing role in the financial market. The Alberta Commercial Corporation (A.C.C.), similar to I.D.B., is a provincial organization set up to provide funds for provincial manufacturing firms. These organizations are attempting to fill a gap in the financial community. Their help opens to marginal or high risk firms another source of finance.

It should be noted that the following tables have four different categories. That of bank administration refers generally to main branch interviews or interviews where the individual involved was concerned primarily with the administration of the lending function. Bank branch, on the other hand, includes the responses of those individuals directly involved in the lending process. The bank total section includes the sum of the first two categories. The last category is "all lending institutions" which includes both bank categories plus the government lending organizations (I.D.B. and A.C.C.).





Table 12 shows at what stage in the formation process new entrepreneurs made their initial contact with the bank.

TABLE 12

STAGE AT WHICH THE ENTREPRENEUR CONTACTED THE BANK  
(in percent)

	Stage 1	Stage 2	Stage 3	Stage 4
Bank Admin.	4.9	16.8	22.4	56.0
Bank Branch	14.0	25.8	37.5	22.7
Bank Total	9.6	21.4	30.2	38.7
All Lending Instit.	11.2	20.0	27.8	41.0

Table 12 clearly indicates all groups involved made the initial contact with the new entrepreneur late in the business formation process. If one calls stages 1 and 2 early, and stages 3 and 4 late, the Edmonton study indicates approximately 70% of the clients make contact late in the formation process. This was not the case in the original study (p. 55) which found 60% of the entrepreneurs made contact in the earlier stages of formation. A possible explanation for the difference between the two studies may be the size of business formed. The respondents, in the Edmonton study, indicate the new entrepreneur is very small (under 10 employees) and, in many cases, uses his own funds to finance the operation. This is done because he does not plan for his financial needs and he may not qualify for a bank loan. The respondents also indicate the new entrepreneur makes application for credit when he "is already in trouble" and is attempting to salvage his operation. It is not known to what extent similar situations existed in the original study.

During the interviews, it became apparent that the people who had previous dealings with the bank, contacted the bank early in the formation process. Table 13 indicates the banks' primary source of new



entrepreneurs is a result of previous association. This familiarity will be a result of previous loan applications or that the individual may be a depository customer.

TABLE 13

METHOD OF INITIAL CONTACT BETWEEN ENTREPRENEUR AND BANK  
(in percent)

	Previous Association	Recommended By Individual	Phone Book	Organization Referral	Other
Bank Admin.	35.1	24.7	0	24.7	15.6
Bank Branch	29.6	17.2	1.9	33.2	18.1
Bank Total	32.2	20.8	1.0	29.1	16.9
All Lending Instit.	28.4	22.1	1.0	30.2	18.3

The first two categories "previous association" and "recommended by an individual" caused some trouble for the respondents. They felt it was difficult to segregate between the two because banks are not recommended, but individuals with the bank are, (ie. the manager). The first two classifications in this study showed a much lower response rate than the original study (p. 57), and the last two categories a much higher response rate than the original study. A possible explanation for the difference may be found in Table 11. This table indicates bankers felt they were involved in the formation process at a later stage, whereas, lawyers felt they were involved earlier. This means that the possibility of referrals by an organization are higher because of the later stage of contact. The last category "other" is higher than the original study (p. 57). The bank administration indicate they have public relations offices in foreign countries which solicit any new business entering the area. In addition, to this, some banks indicate they approach new companies for future business. If the above



reasons (stage of contact and solicitations of accounts) is correct, this could cause the emphasis between studies to be shifted to the "referrals by organization" and "other" categories. The bank respondents also were asked about the recent changes in the Bank Act regarding advertising. They all indicated it had little effect upon new businesses. The only area in which advertising appears to be important is in the competition for deposits.

The frequency of contacts between the new entrepreneur and the bank varies greatly. The bankers interviewed, indicated the contact was continuous, if the new business was eligible for credit. They felt once an arrangement had been made, the new business and bank would continue a credit-depository relationship. If credit was not granted, the likelihood of the new firm remaining as a depositor was extremely small.

The bankers indicate they have two main functions to perform for the business community. They see their role as counselling and lending. There is disagreement as to the importance of each.

The bank traditionally has been the center of the business community. The bank had information on all the major financial and business aspects of the community. Therefore, bankers have been regarded by the businessman, as a valuable and judicious source of information. Based on interviews conducted, it appears the banks are in a state of transition away from the traditional view. This change of attitude was detected between the various age groups. When asked what role they thought the bank should play in the formation process, the middle-aged bankers indicated counselling in business matters and loaning of funds. The younger bankers felt the only responsibility was financial advice regarding loans. All groups agreed, that in the small branch office or







community bank, the traditional view holds but in the larger centers the banks have changed. The banker, in these centers, does not hold the position of influence he once did. The younger people feel modern business is too complex for them to provide general advice to clients.

The change, that the bank is currently going through, does not really alter the role the new entrepreneur would like the bank to play. In addition to the financial services, the bankers felt the new entrepreneur wanted the counselling role. Table 9 (p. 27) indicates the majority of new businesses are formed by technically skilled individuals or people with considerable work experience in the area. These people do not have adequate funds to purchase the proper professional services. The banker, therefore, becomes a counsellor where the individual may "try out" his ideas. In addition to obtaining the experienced judgement of the banker, the advice is free. The bankers, in general, feel the entrepreneurs sought counsel for one of three reasons: first, they actually want to hear the thoughts of the banker; secondly, they want to justify their own thinking; or thirdly, they feel the banker may indicate certain areas where there is lack of information or planning. The resulting conflict, between the expectations of the businessman and the attitude of the younger banker, will have to be resolved in future bank policy.

Basically, it appears that a new entrepreneur contacts a bank for "credit". These people have little knowledge of the types offered by the bank, restrictions on borrowing or length of repayment time. During the initial contact, the banker will usually request financial statements prepared by a C.A. and also may request certain legal information concerning the type of organization. This forces the entrepreneur to seek the aid of these professionals if he hasn't already done so in his search



for information.

After the statements have been received by the banks, they decide if the applicant is credit worthy, to what extent, length of loan, collateral, etc. It is during this decision period, the contact with the bank is most detailed. If the applicant is accepted for a loan, he quickly realizes financing is an involved and complicated part of his business operation.

The bank usually decides if the applicant's loan will be long or short term. At this point, the bank is concerned with its own position. For example, the bankers indicate their long term funds were for 3-5 years. If the loan was for capital goods, this quick pay-back period may place undue pressure on an already weak financial position. The bankers indicate revolving credit is a common means of financing. This approach uses loans for short periods of time which are renewable or revolve. This method may sound good to the new businessman but it is risky because the bank may decide to withdraw its credit at any renewal date. If this happens, it is usually because of some upcoming financial crisis which the bank can foresee. This is the worst possible time for the businessman to lose his means of financing.

The bank attitude in lending policy is a very conservative one. A small entrepreneur may obtain financing on a "dollar for dollar" basis. Thus the maximum amount of funds a business operator may receive is equal to his equity. One banker suggested what the business community needed were banks that would provide venture capital. At present he indicated the Canadian banking community is preoccupied with collateral. Little or no concern is shown for the entrepreneur, his ability or idea.



Most bankers indicate, that if loan application was denied, they directed the individuals to I.D.B. or A.C.C. At this point, contact with the new business was terminated.

The bankers, accountants, and lawyers are generally sympathetic to I.D.B. and A.C.C., but critical of their operations. Three common complaints were heard regarding the government lending corporations. First, the time element for loan application processing was too long. The people interviewed, felt the new business was not able to function for the extended period of time while the loan was being processed. For example, one of the professionals indicated that a client in a seasonal industry, applied for government assistance four months prior to the time the money was needed and the application was accepted. The funds were obtained approximately six months after the application was received and consequently the critical period had passed.

Secondly, all groups of people were critical of the government's lending policy. If the lending policy is to fill the position of "banks of last resort", they do not. As lending institutions for conventional funds, the government risk or venture capital is very limited. The professionals, who had dealings with I.D.B. and A.C.C., indicated the restraints placed on firms are too restrictive for proper future operations. There appears to be a difference between the stated policy and operations of the government lending institutions.

Thirdly, the respondents felt the government should provide some sort of venture capital either through the existing branches of the government or by creating new branches. This solution also was advanced by one of the bankers. He feels that all segments of the financial community are ultra-conservative and in order to provide acceptable





service to the business community, venture capital must become more readily available. In a developing country, he feels it is essential to have venture capital in order to sustain economic growth.

The bankers perception of the motivational drives of new entrepreneurs is shown in Table 14.

TABLE 14  
BANKERS PERCEPTIONS OF ENTREPRENEURIAL MOTIVATIONS  
(in percent)

	Job Seeking	Chance	Classic	Independence
Bank Admin.	11.4	8.9	25.0	54.7
Bank Branch	15.9	5.7	45.9	32.5
Bank Total	13.7	7.2	35.9	43.2
Government	10.2	13.7	31.2	45.0
All Lending Instit.	13.2	8.2	35.2	43.4
Total Response	22.5	9.2	38.6	29.7

Table 14 indicates that "chance" occurrence is an insignificant reason for entering business. The bankers response of 7.2% was similar to the average response of 9.2%. This response was slightly higher than the original study (p. 69).

There is, however, two interesting differences between the bank employees interviewed. First, Table 14 indicates the bank administration people are quite different from the branch people in the rating of the "classic" and "independence" categories. Fifty-four percent of bank administration people placed independence as the primary motivational force, and classic reasons as secondary with a 25% response. This is directly opposite to the branch people who indicate classic (45%) as primary with independence (32%) as secondary. In total, these two categories account for approximately 80% of the responses of both groups.





Speculation, as to why the difference between groups, may result in the earlier conclusion of age differences. The younger person, dealing directly with the entrepreneur, may feel the main concern is profit and return on investment. This feeling is probably a result of increased education and knowledge on the part of both bankers and entrepreneurs. The older administration people, may be recalling independence, as a strong motivational force for the new business operator. The difference in the perception of motivational forces could be a result of age and/or education which has caused a change in bank policy, or an actual change in entrepreneurial motivations.

The other difference, is the responses of bankers as compared to the overall average response for the categories "job seeking" and "independence". The bankers response rate to "job seeking" and "independence" was 14% and 43% respectively as compared to the average response of 22% and 31% respectively. The difference in perception may be a result of the changing role of the banks. As the bank counselling decreases, and the specialization in only the financial matters of the firm increases, knowledge of the overall operation of the business and an understanding of the owner(s) may decrease. This lack of personal involvement, by the banks, may account for the different perceptions. The lawyer, and especially the C.A., still have a certain degree of personal involvement in the business and thus will become better acquainted with the motivational forces of the owners.

The above reason is only a partial explanation for the different attitudes. The Edmonton bankers rated independence much higher than the original study 43% and 22% respectively. Why the Edmonton bankers rated independence twice as high as the original study is unknown, and warrants



study.

The bank responses differ either among themselves or between the other respondents in the areas of planning and location of new entrepreneurs. The bankers' responses are below the average response, in the length of time new businessmen plan, prior to opening. The average response indicates 5.8 months planning time. The bank administrator reports 5.1 months and the branch bank people report 3.7 months. The responses indicate bankers, generally, feel their clients do not plan the formation process as long as the other respondent's clients. This may be explained partially by Table 12 (p. 38) which indicates the bankers appeared late in the formation process. When a client contacts a banker, it may appear that the planning process has not been properly completed. The banker may not know exactly what planning has gone on, prior to the contact with him. A further explanation, for the difference among the bankers, may be the different types of clients handled by the two different groups. The administrative office, would probably handle the larger clients, who theoretically will have better information sources and undertake a through planning process. The branch banker, will in all probability, see the local businessman for the standard type of credit. This latter individual may be less inclined to do a through planning job because of a lack of knowledge or information.

The remaining area, where a difference in opinion appears, is when bankers estimate the percent of new entrepreneurs as local or out of town. The bank administrators estimate 62% local business, while the branch people estimate 86% local business. The average response is 76% local business. The explanation for the difference probably can be tied to the class of clients seen by each group. The bank administration



indicates their concern for large foreign or out of province firms relocating in the area. Because these are major accounts, they tend to be handled by the head office. This is in contrast to the local branch banks which service the local community.

In summary, the bankers feelings align with the accountants in regard to new entrepreneurs. They indicate they were not involved at an early stage of the formation. Little attempt is made, on the part of the new entrepreneur, to find out what services the bank offers. Many times, the new entrepreneur was beyond help before he sought consultation. The other point of interest was the divergence of opinion between the branch people and the head office people. It appears that the bank is in a state of transition and it is likely that policy changes will evolve in the next few years.





## CHAPTER 5

### LAWYERS

The legal profession constitutes the third group. The method of sampling was changed from the original study (see Appendix A) because of the problems encountered. Lawyers have a tendency to specialize in certain areas. Corporation law, formation procedures, etc., are usually handled by a specialist in this area. For this reason, the firms were sampled and an interview conducted with the lawyer who specialized in business formation.

The majority of lawyers indicated many of the questions were difficult for them to answer. They felt their relationship with their clients was different from that of the bankers or accountants. Because of their specialization, lawyers felt they did not have the background or ability to counsel the client on matters that did not have a direct bearing on a legal problem. They thought the accountant and banker had a better overall knowledge of business because their work is not as restrictive.

Table 15 summarizes the results of how lawyers felt their clients selected their particular firm. The lawyers indicated the major means of obtaining clients must come from good satisfactory work to existing clients. Table 15 shows 63% of the new entrepreneurs were obtained by prior association or recommended by an individual. Many of the lawyers felt their business clients, were a result of successful associations with the individual on personal matters (ie. purchase of a house, wills,



etc.). Table 15 shows that in the first class "previous association", lawyers' responses were higher than the average 33% to 28%. This could be the result of personal association with the client, or the client has been involved in more than one business.

TABLE 15

HOW ENTREPRENEURS SELECT THEIR LEGAL FIRM  
(in percent)

	Previous Association	Individual Recommendation	Phone Book	Organizational Referral	Other
Lawyer	33.4	30.4	0	31.5	4.3
Average Response	28.2	24.3	1.4	35.5	10.5

Table 15 also indicates that lawyers do not emphasize other means of attracting clients because the "other" category accounted for only 4.3% of the response. The importance of the "phone book" and other categories are similar to the original study (p. 73) which showed only 2% of the lawyers felt these methods of contact were used.

The lawyers, similar to accountants, had some difficulty distinguishing between organizational referrals and individual referrals. This problem may cause the individual categories to be in error but the importance of all referrals (62%) will be correct.

The legal profession appears to attract clients who are already in business. Table 16 summarizes the responses and indicates that lawyers feel that their clients have been active in the formation of other businesses. This table supports some of the lawyers beliefs that the "first time" entrepreneurs appear to be over-cautious in selecting a lawyer or anticipating the need for one. These people usually only obtain legal aid when faced with litigation. The lawyers believe, if



they survive the litigation procedures, the clients suddenly realize the importance of retaining legal counsel. At this point, they may allow the lawyer to counsel them in other legal matters such as tax, business structure or agreements. If the association has been successful, the client will probably use the lawyer as an important source of information in any future business proceedings including formation of another business.

TABLE 16

ENTREPRENEURS WHO HAVE BEEN ACTIVE IN THE  
FORMATION OF MORE THAN ONE BUSINESS  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Lawyers	0	12.8	40.3	41.8	5.2
C.A.	0	0	3.9	84.3	11.8
General Acct.	0	0	0	28.0	72.0
Bankers	0	0	7.6	66.7	25.7
All Lending Instit.	0	0	7.5	70.6	21.9
Average Response	0	3.7	15.7	63.6	17.0

Table 16 shows 53% of the lawyers felt their new clients had been active in more than one business over "one-half the time". This is compared to the next highest group, bankers, who had a 7.6% response. It is difficult to understand why the response rate of lawyers is much higher than the C.A.'s. One would imagine, if a client saw the need for a lawyer, he would understand the importance of an accountant. However, this is not the case. Isolating reasons for the above is difficult, but in Chapter 3 (p. 28) the accountants indicated they did not enjoy a good public image. This may result in the small entrepreneur consulting with a lawyer due to greater public knowledge about their role in business. The entrepreneur also may try to protect himself to the greatest degree and seek legal aid in accomplishing this.





Table 17 indicates the stage of business formation which the entrepreneur was at, when he contacted a lawyer. This table appears to add support for the explanation of Table 16. The lawyer, who has many of his clients from previous associations, will be able to impress upon them the value of legal counsel prior to the operation of the firm.

TABLE 17

STAGE OF FORMATION IN WHICH THE ENTREPRENEUR  
CONTACTED A LAWYER  
(in percent)

	Stage 1	Stage 2	Stage 3	Stage 4
Lawyer	17.0	27.3	28.6	27.1
C.A.	14.2	14.5	36.7	34.6
Average Response	13.1	20.0	30.4	36.4

The stages referred to in the above table are: Stage 1, having the idea only; Stage 2, deciding to go ahead with the idea but the business had not been organized; Stage 3, has organized the business but has not made any sales; Stage 4, made sales.

The responses in Table 17 show that the lawyer is contacted in the earlier stages, approximately one-half the time (44%). This is opposed to the accountant at 29% and the average response of 33%. Table 17 further indicates that if a prospective entrepreneur is going to have contact with a professional, it will probably be a lawyer. Those interviewed reported that only 27% of their new clients had made sales prior to consultation. This is the lowest figure among all the groups sampled. In comparison to the original study (p. 75) the major difference is in Stage 2 and 4. The original study found 43% of the lawyers felt their clients contacted them in Stage 2 (27% for the local study) and 17% felt they were contacted in Stage 4 (27% for the local study).





## BACKGROUND OF A LAWYER'S CLIENT

The following section will indicate the type of entrepreneur using the services of a legal firm. The following description is based on the interviews conducted and data gathered.

The lawyers felt the typical client or new entrepreneur is an individual who has had considerable work experience in the particular line of business. Table 18 shows that lawyers rated their clients as having "work experience" higher than anyone else. A distinction was made between "work experience" and "skills directly used in the business". Skills were taken to mean formally trained abilities of the new entrepreneur. For example, a welder or carpenter, who has been technically trained, as opposed to one who gained his expertise through working. The lawyers felt their clients were not as "skill" oriented (Table 18) as other groups sampled. A partial explanation for this difference may be that the people entering the retail or manufacturing industry usually are "work experienced" oriented. This is opposed to the service industry which is skill oriented. The retail and manufacturing people, frequently, require the services of a lawyer because they will, in all probability, have to enter into lease agreements, rental-purchase agreements, inventory agreements, etc. These agreements generally involve a large amount of money and lengthy periods of time. Under these circumstances, the entrepreneurs apparently seek professional advice in order to protect themselves.



TABLE 18  
BACKGROUND OF NEW ENTREPRENEURS  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Skills Directly Used					
Lawyer	1.3	72.4	13.5	12.8	0
C.A.	6.2	55.1	38.7	0	0
Average Response	3.7	77.5	15.1	3.7	0
Work Experience					
Lawyer	0	12.8	40.3	41.8	5.2
C.A.	0	0	3.9	84.3	11.8
Average Response	0	3.7	15.7	63.6	17.0

The earlier sections found the lawyers clients sought the advice of professionals at an earlier stage and with greater frequency. These circumstances suggest that the clients of lawyers should have better educational backgrounds than the other respondents.

TABLE 19  
EDUCATIONAL BACKGROUND OF NEW ENTREPRENEURS  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
8 years or less					
Lawyer	0	0	10.3	76.9	12.8
C.A.	0	11.6	23.3	42.7	22.4
Average Response	0.9	5.0	14.9	66.6	12.6
12 years or less					
Lawyer	0	89.0	11.0	0	0
C.A.	11.6	62.9	25.5	0	0
Average Response	2.8	80.0	16.3	0	0
Attended University					
Lawyer	0	16.6	11.0	72.4	0
C.A.	0	0	37.1	62.9	0
Average Response	0	5.2	20.3	57.0	0



The only conclusion which can be drawn from Table 19 is that generally the new entrepreneurs who contact lawyers have slightly better educational backgrounds than the average entrepreneurs. For example 93% of the lawyers indicated their clients "sometimes" or "almost never" have grade 8 or less. The average response to these two categories was 78%. At the opposite end of the scale 17% of the lawyers felt their clients "very often" had university education and 28% of the responses were in the categories "very often" and "about half the time". The average for the other respondents was 5% and 25% respectively. The middle grouping, of grade 12 or less, was similar for all groups.

The clients of lawyers exhibited a shorter planning period than the clients of the other respondents. This is contrary to the belief that the average new businessman who seeks the advice of professionals, is better educated than average.

TABLE 20

LENGTH OF PLANNING PERIOD PRIOR TO FIRST SALE  
(in months)

Lawyer	4.1
C.A.	9.3
General Accountant	2.2
Bank	4.4
Government	12.0
Average Response	5.8

Table 20 shows that next to the general accountants, the lawyers clients have the shortest planning time. Previous analysis has shown that clients of lawyers tend to seek professional help earlier in the formation process. This short planning period could be due to two possible reasons. First, when entrepreneurs seek the advice of lawyers early in the formation process, it may save them considerable time. The





lawyer may be able to direct the individual to the proper information quicker and more efficiently than the individual can conduct his own search procedures. Second and possibly a more likely reason, lawyer's clients have a greater tendency to have participated in prior businesses. The individual who is familiar with the formation procedure, due to experience, will be able to efficiently conduct his own informational search process, faster than the "first time" entrepreneur.

Another area in which the lawyers have significantly different responses, than the other groups, is in their perception of the motivational forces for starting a new business. Table 21 summarizes the responses.

TABLE 21

LAWYERS PERCEPTIONS OF ENTREPRENEURIAL MOTIVATIONS  
(in percent)

	Job Seeking	Chance	Classic	Other
Lawyers	29.2	7.6	49.4	13.8
C.A.	28.7	13.7	35.0	22.7
Average Response	22.5	9.2	38.6	29.7

The lawyers responses are the highest of any group in the "job seeking" and "classic" classifications. They are also the lowest in "chance and "other" categories. During the interviews it became apparent that the lawyers viewed the motivations of businessmen in a different manner than the other people interviewed.

The "classic" category contains the largest discrepancies. Reasons for this difference are difficult to hypothesize but several may be possible. First, the lawyers indicated they act as agents for investors. In this capacity, they advise and help to place money for



clients. There was some difficulty placing these people in the categories. Technically, they are businessmen, but they are not directly involved in the decision making process. Since many of them are first time investors, the lawyers tend to place them in the classical category. This was done because these people usually realize the value of money and are investing for a return on capital. Secondly, the clientele of lawyers appear to be different from other groups. This could affect the motivational forces. The lawyers have more clients who have had previous business experience and are better educated. For these reasons, they may tend to think of business in the classical sense. The last possibility of the high response rate in the classical category, is purely subjective and was noticed during the course of the interviews. It is possible, the high response rate is due to lawyers explaining their own motivational forces, rather than the clients. As a group, they generally appear to follow classic lines and therefore may not be able to understand other people's personal or subjective values.

The above mentioned inability of lawyers to perceive entrepreneurs values was stressed when one individual stated--

I never get involved with clients feelings, it would affect my ability in legal matters. The people are paying for my professional ability and nothing else. If I give a client advice and they follow it and things do not turn out as favourable as they should have, guess who is to blame. The only thing a lawyer can do is give a client a series of alternatives. From there on the subjective reasons for the decision are the clients.

The fact, that lawyers tend to remain impersonal to the client, may possibly explain why they rated independence low. If they do not attempt to understand a clients personal motivational forces, they may underestimate the force of these motivations.



The importance of a lawyer as an informational source is evident in Table 22.

TABLE 22

THE ACCOUNTANTS AND BANKERS VIEW OF THE LAWYERS INVOLVEMENT  
IN THE FORMATION PROCESS  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
C.A.	27.2	28.0	31.7	13.2	0
Banker	7.6	10.6	19.2	55.1	7.6
Average Response	12.9	18.6	22.0	42.5	3.9

TABLE 23

THE LAWYERS VIEW OF ACCOUNTANTS AND BANKERS INVOLVEMENT  
IN THE FORMATION PROCESS  
(in percent)

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Accountants					
Lawyer	3.9	63.9	9.7	18.7	3.9
Average Response	5.9	47.6	14.2	30.7	1.5
Banker					
Lawyer	15.4	53.2	1.3	30.2	0
Average Response	21.4	50.7	7.0	20.9	0

Table 22 shows all groups indicated the lawyer was an important informational source. When one compares Table 22 and 23, they show the role, that various groups play in business formations, as perceived by the other groups. For example, 77% of the lawyers indicated accountants were involved in their clients business formation more than one-half the time. The average for all respondents was 68%. Alternately, 87% of the accountants indicated lawyers were involved in the formation process one-half the time or better. The average





response was 54%. This shows the importance of these two groups of professionals in the formation process. It also indicates the importance of the referrals between the groups.

Bankers and lawyers have varying perceptions of each others involvement. Seventy percent of the lawyers perceived the bankers as being in the process one-half the time or better. The average was 79%. Thirty-eight percent of the bankers perceived the lawyers as being involved in the formation process one-half the time or better. The average response was 54%. This data supports the original study (p. 84). This difference may have two varying causes. First, the fact that bankers deal with many more "first time" entrepreneurs and second, that bankers advice is free. The free advice may be very important to an entrepreneur with limited funds.

In summary, it appears from the data collected that the lawyers role is extremely important in the formation of a business enterprise. The lawyer is, apparently, one of the first people contacted, and also he is contacted more frequently, than the other professionals. This is largely due to the fact that clients of lawyers, apparently, have more business experience and are generally better educated.





## CHAPTER 6

### CONCLUSION

From an entrepreneurial viewpoint, the business formation process takes a heavy economic toll. The statistical evidence indicates the early periods, prior to and just after opening, are critical to a business. Many of the problems that arise in the initial period after opening, can be avoided or lessened to a great extent if proper advice had been received during the formation process.

Statistically small business can be justified as an important force in our society. The small firms account for approximately one-third of our output. In order to produce this output, they use the services of more than one-third of the labour force. Besides an economic force, small business is an important symbol of our economic and political system. The smaller firm contributes to the social framework of society. It accomplishes this by attracting people who do not, for a variety of reasons, want to work in a large firm. For the above reasons, concern for small business is justifiable.

### THE PROBLEM

The basic problem, perceived by the professionals, was the lack of any type of search process on the part of the entrepreneur. The professionals indicated, the typical entrepreneur did not know how to search for information, did not know what was available, and did not know how to obtain it or what agencies could help. Previous studies



found very few entrepreneurs seek any kind of management assistance. Several reasons for the lack of trust in outside counsel have been proposed: lack of funds, poor information, inability to understand or implement advice, violation of independence or admission of failure by seeking advice. Any or all of the above may be logical reasons.

The problems which face the professional in the role of consultant to business formation are varied. Many professionals interviewed can be classed as "passive" individuals. If the entrepreneur is a typical type of person, consultation from a "passive" professional is not nearly as valuable a service as advice from an "active" professional. The advantages of selecting an "active" professional are many, but most important, is obtaining consultation from an experienced individual. This person is able to point out many possible problem areas thus enabling the entrepreneur to revise his planning.

Another difficult area appears to be lack of inter-professional communication. Referrals are the only type of communication at present. No attempt has been made to actively approach the problem of business formation. The professionals appear to be concerned only with their specific area. The entrepreneur may not need just legal advice but rather a lawyer who understands the roles of all professionals and what services they can provide for his client.

The accounting and legal professionals are hampered by their professional code of ethics--which does not allow them to advertise. The lack of advertising hinders the search process by prospective entrepreneurs because they will have to view all accountants and lawyers as homogeneous groups. Lack of advertising does not allow a professional to indicate to the public his particular area of specialization within



his profession. It is not the intent of this paper to comment on the ethical reasons cited by the various associations for limiting advertising. Practically, it appears inefficient from the entrepreneur's viewpoint.

#### THE ORIGINAL STUDY

Since this is a replicate study, comparisons of the local results to the original study are made throughout the paper. In general the results of the Edmonton study support most of the trends or inferences raised in the original study. If a common difference exists between the two studies, it is the general attitude of both the entrepreneur and the professional. In general, favourable results would be lower, while unfavourable results would be higher, in the Edmonton study, when compared to similar results of the Washington study. This gives the impression that the level of sophistication of both the entrepreneurs and the professionals is higher in Washington than in Edmonton. An interesting result of the comparisons is the relative similarity between the attitudes of the people who comprised the respective study samples. The fact, that the studies display similarity of finding in most topics, supports at least, their selective application to Canadian conditions. Obviously, however, broad generalizations about this matter would not be warranted. Nevertheless, there is some merit in considering further the findings of studies conducted by the Small Business Administration and their relevance to small business in Canada.

The following section will examine some of the findings of the study. Many of these findings are the same as the original study (p. 147).





## SUMMARY OF FINDINGS

The following findings are based on the professionals opinions of the typical prospective entrepreneur and his ability to organize a successful firm.

## Typical

The typical entrepreneur has less education or formal training.

The typical entrepreneur does not have previous experience. He is generally a "first time" entrepreneur.

The typical entrepreneur is a skilled individual. He believes the lack of business knowledge will not harm his operations.

The typical entrepreneur does not understand how to search for information.

The typical entrepreneur is undercapitalized. He also has committed all his personal funds and has no reserve to draw upon.

## Successful

The successful entrepreneur has a better educational background than the average businessman. The original study found he also has a better than average education than the rest of the population.

The successful entrepreneur has had previous business firms. He appears to gain valuable experience from the earlier formation process.

The successful entrepreneur has had some type of business knowledge, either through experience or by short course. A knowledge of business operations appears to be a most important point.

The successful entrepreneur is capable of and uses a search procedure. He knows how to search and what services are offered by the various groups or institutions if he cannot complete his own search process.

The successful entrepreneur has completed an analysis of his financial needs. He draws upon his own personal funds, long and short term funds, and possibly other equity sources. He has some funds in reserve.



The typical entrepreneur does not know or understand the services offered by the professional.

The typical entrepreneur cannot foresee problems. He usually seeks the advice of professionals after the crisis has occurred.

The typical entrepreneur seeks the advice of a professional at a late stage in the formation process.

The typical entrepreneur does an inadequate job of planning his operation.

The typical entrepreneur does not know where he can receive help or information. He does not know what private or public agencies can do or provide.

The typical entrepreneur does not have an adequate knowledge of himself.

The successful entrepreneur knows what services each professional offers and in what stage of the formation process they are most useful.

The successful entrepreneur uses the services of the professional as a preventative solution to possible problems.

The successful entrepreneur seeks the advice of professionals early in the formation process. This allows possible problem areas to be corrected in advance.

The successful entrepreneur plans well in advance. He is able to understand the inter-relationship between the various segments of the business and plan the total operation.

The successful entrepreneur knows the information available from each source. He also knows most of the sources that he is able to use if his informational needs require additional data.

The successful entrepreneur knows his own strengths and weaknesses. He is capable of accepting advice and knows when he is incapable in a certain area.

## RECOMMENDATIONS

As a result of this study, though certain questions remained unanswered the need for some changes became apparent. The following recommendations are from the evidence found in carrying out this study.



For Further Study.--Research raises more questions than it answers. This study is no different. The following matters surfaced during the study.

1. The study dealt with professionals opinion based on experience. Were the experiences of the professionals representative of the entrepreneurial process? It is very possible only a small proportion of new or prospective entrepreneurs see a professional at any time. If this is the case the results of this study may enhance the formation process. Inquiry is needed to determine what percentage of firms seek any advice, and in what order do they seek it. What happens to those who do not seek any aid?
2. This study was based on an Edmonton population and used a relatively small sample. It is now possible to estimate some of the characteristics of the population thus enabling a proper statistical study for Alberta to be undertaken.
3. Little is known of the information necessary for good practice formation. It is assumed the professionals dispense correct information. Do they? Research is needed to isolate the optimum amount of information, what form it should be in and when the entrepreneur should receive it.
4. A study of entrepreneurial problems or causes of failure during the first five years is needed in order to see if any of these difficulties can be prevented by proper information during the formation process.



For Policy.--During the interviews and upon analysing the data, the need for certain changes became evident. The changes are listed below.

1. The study indicates a need for a central agency which can gather data and disseminate information. In all probability this should be a government agency.
2. Government policy and professional information must be based on relevant data. At present the study indicated this relevant data does not exist. Present policy and information may have been based on inadequate or incorrect data. The three levels of government do not conduct or support any research into the operations of the business community. Government policy appears to be based on two basic ideas. First, policy is orientated toward big business. In many instances little firms are not eligible for the various government assistance programs. Second, and probably most important, the government attitude appears to be one of "when in doubt provide money". Funds are essential but the smaller businesses require management assistance as much or more than funds.
3. There is a need for educational services. Although there are many existing educational opportunities, they do not appear to be directed at the problem areas defined in this study, nor at prospective entrepreneurs.
4. Education may be increased through publication. There are few useful Canadian publications for the small entrepreneur.





5. There appears to be a need for an advisory board consisting of the various professional groups. This board would coordinate the various associations and provide information to the prospective entrepreneur on the formation process. This board must view the total process and not just the specialized process of legal, banking or accounting areas.
6. There is a need to reach the prospective entrepreneur. Advertising may help. Concentrated efforts by all groups concerned would assist. This may force some of the necessary information upon the unwary entrepreneur. One possible place where brochures and pamphlets may be used to advantage is at the licensing departments of municipal and provincial governments.

This study has shown that the prospective entrepreneur suffers from inadequate information creating serious difficulties in the formation process. If the proper informational flow to the prospective entrepreneur can be increased, reduction of the problems may occur thus creating a more viable business community.



## APPENDIX A

### THE SAMPLE DESIGN



The original study indicated that accountants, lawyers and bankers were the groups most often contacted by entrepreneurs for assistance in the establishment of a prospective firm. It was the intent of the original study to investigate the role that each of the three professional groups play in the formation process and to determine what similarities and differences exist within and between the groups.

In order to collect the necessary data, a random sample of the professionals was used. This method of sampling provided some problems in the collection of meaningful data. The major problem of the random sample occurred during the interviews when it became evident professional specialization was distorting the results. For example, a lawyer specializing in criminal law may never be associated with a business formation, but yet this individual was being interviewed because of the random sample. A similar situation of specialization occurred within the accounting group. Random sampling of banks provided a slightly different problem. A sample of banks indicated that some banks were designed, due to location, as depository banks catering to personal needs. Interviews, conducted with this type of bank personnel, did not provide adequate information concerning the business formation process.

As a result of the specialization problem, the sample design was changed for the Edmonton study. This change was possible because the quality of data was thought to be more important than the randomness of the sample. Consequently, a random sample of professional firms was undertaken. During the initial contact with these firms, the professional who specialized in business formation was interviewed. Other





reasons for the change will be evident in the following sections which examined the sampling technique of each professional group.

The initial intention of the Edmonton study was to sample professional firms in both Edmonton and Calgary. This sample, was going to be undertaken, because the original study sampled professionals from two counties. The analysis of the original data indicated that geographical division was of less importance within a given group than the differences between professional groups. Based on this evidence plus the difficulty of coordinating four weeks interviewing in Calgary, it was decided to drop the Calgary section. In addition, there appears to be similar business and professional situations in the two cities. For example, Edmonton lists 400 C.A.'s and 475 lawyers while Calgary lists 420 C.A.'s and 450 lawyers.

Sample of Accountants.--The problem of selecting a sample of accountants was reduced by sampling the firms rather than the individuals. It was necessary to sample the general accountants by firm because there is no association which would enable one to determine the individual population. The random sample was obtained from the phone book listings using a table of random numbers. The decision to sample general accountants was a result of preliminary investigation which indicated they are involved in the formation process to a limited degree. The original study found some interesting differences between the general accountant and the C.A. which will be compared in the Edmonton study.

The change in sample design eased the sampling situations with the C.A. The Alberta Institute of Chartered Accountants does not have a list of individuals in public practice in Edmonton but they do have



a list of public firms. The sample was selected by using a table of random numbers and the official Institute mailing list of firms.

Sample of Lawyers.--The change in the sample design reduced the problems encountered in the original sample of lawyers. A list of law firms in Edmonton was available but a list of practicing members was not. The Law Society has a mailing list of members but there is no distinction made between members in public or private practice. Thus a random sample of the Society's members would draw some members in private practice plus some who specialize in other areas of law. The sample was computed using the legal directory and a table of random numbers.

Sample of Banks.--The method of selecting the bank sample was a judgement rather than random procedure and similar to that used in the original study. Each banking institution (Royal, Montreal, Commerce, Nova Scotia, Toronto-Dominion and the Alberta Treasury Branch) was contacted. The initial contact was either the main branch or divisional office, if one was in Edmonton. An interview was conducted with the senior lending officer, if the bank was a main branch, or a senior administration officer, if the bank was a divisional headquarters. This person indicated the most appropriate branch bank to interview. This method was used in an attempt to increase the accuracy of the data.



## Sample Size

## Bookkeepers

Sample Size	5
Total Number of Firms	40
Sample as a percent of population	12.5%

## Accountants

Sample Size	12
Total Number of Firms	57
Sample as a percent of population	21%

## Lawyers

Sample Size	12
Total Number of Firms	137
Sample as a percent of population	9%

## Bankers

Sample Size	12
Total Number of Bank Branches	140
Sample as a percent of population	8%

## Other

Interviews were conducted with the Industrial Development Bank, Alberta Commercial Corporation and the Economic Development Branch.



APPENDIX B

THE  
QUESTIONNAIRE





Our basic study dealt with how businesses were formed from the point of view of the people who organized the businesses. Since we found that \_\_\_\_\_ such as yourself were a major source of help, we would like to obtain information from you about how businesses are organized. We are interested, not only in your experiences relative to business formations, but in any ideas you have about how the number of business formations might be increased or made more successful.

In order to provide a framework for analysis, our earlier study viewed new business formations as consisting of three stages. The first stage ran from the time the idea to start the business first occurred to the time the decision to actually go ahead was made. The second stage ran from the time the decision to go ahead was made to the actual formation of the business. The third stage ran from the formation of the business to the time of the first sale. The period following the first sale was really a fourth stage. We investigated this fourth stage in our study although our primary emphasis was on the three stages mentioned above and the formation of the business was defined in terms of these three stages.

These time periods were arbitrarily determined and at times it was not possible to use them. In general, however, they provided a convenient means of getting greater detail from our respondents about how their businesses were organized than would have been possible without them.

### SECTION 1

The first section of our interview deals with contacts. We would like to know how people who were interested in starting new businesses contacted you. Please include all individuals who contacted you, whether they were successful or not. Include all contacts made in 1967 and following years.

(1) What percent of the people contacted you because:

- (a) Of a previous association \_\_\_\_\_
- (b) You were recommended by another individual \_\_\_\_\_
- (c) Your name was obtained from a phone book or directory \_\_\_\_\_
- (d) You were referred to them by an organization \_\_\_\_\_
- (e) Other \_\_\_\_\_

(2) At what stage in the formation of their business would you estimate these people were when they made their initial contact with you?

	<u>Percent</u>
Stage 1 - Had idea, but had not decided to go ahead	_____
Stage 2 - Had decided to go ahead, but had not organized business	_____
Stage 3 - Had organized business, but had made no sales	_____
Stage 4 - Had made sales	_____



- (3) Would you please indicate, if possible, how many additional contacts you (typically) had with these people after the initial contact.
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## SECTION II

Is there anything that could be done to assist business formations that is not being done now? Essentially we would like your observations based upon your experience and knowledge as to what might be done in this regard.

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## SECTION III

In this section we would like to obtain information on business formations based upon your experience. If generalizations are possible, we would like to obtain answers based upon such generalizations. If your experience suggests that generalizations are not possible for a particular question, we would appreciate a more detailed answer explaining why generalizations are not possible.

- (1) From your experience with new business formations (since 1967), what was the average time in months from the time of idea to start of business to the time of the first sale?
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- (2) From your experience with new business formations (since 1967), how often did the idea to start a new business come from:

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
(a) A single person					
(b) More than one person					
(c) Another business					



- (3) From your experience with new business formations (since 1967), how often did you find the following individuals or groups involved in any way in new business formations?  
(Exclude category in which the respondent belongs).

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Accountants					
Bankers					
Lawyers					
Management Consultants					
Other Individuals					
Other Business					
Chambers of Commerce					
Industrial Councils					
Industrial Development Bank					
Local Development Organizations					
Other Local Organizations					
Alberta Commerce Corporation					
Economic Research Branch (Provincial Government)					
Industrial Development Branch (Provincial Government)					
Department of Trade and Commerce					
Other Federal Government Agencies					
Colleges or Universities					





- (4) From your experience with new business formations (since 1967), how often did a new business use the following source of funds for their initial financing?

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Short Term Debt (one year or less)					
Long Term Debt (over one year)					
Equity Financing					

- (5) From your experience with new business formations (since 1967), what percent of the initial financing of the new business typically came from the following sources:

	<u>Percent</u>
Short Term Debt (one year or less)	_____
Long Term Debt (more than one year)	_____
Equity	_____

- (6) From your experience with new business formations (since 1967), how many paid employees did a new business typically have when it began operations (made sales)?

10 or less \_\_\_\_\_ 11-20 \_\_\_\_\_ 21-30 \_\_\_\_\_ 31-40 \_\_\_\_\_ 41-50 \_\_\_\_\_  
Over 50 \_\_\_\_\_

- (7) From your experience (since 1967), how often were the factors listed below important in determining the location of the new business?

Availability of Resources

Demand Factors

Cost Factors

Personal Factors

Other (Please cite)

\_\_\_\_\_



- (8) From your experience with new business formations (since 1967), how often did the people who form business have formal education of:

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
8 years or less					
12 years or less					
Attended College or University					

- (9) From your experience with new business formations (since 1967), how often did the individual who organized the business have:

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Skills directly useful in the business organized					
Work experience in a similar business					
Been instrumental or active in the formation of another business					

- (10) From your experience with new business formations (since 1967), how often did the individuals who organized the business have the following employment opportunity available to them?

	Almost Always	Very Often	About Half The Time	Some- time	Almost Never
Continue present employment					
Take new employment					
Start another business					
No other alternatives					



- (11) Individuals may have a variety of reasons for starting a business. In many cases, however, one specific reason seems to be of primary importance. From your contact with people who started new businesses from 1967 to date what percent of the individuals who started a new business did so primarily because:

- |  | <u>Percent</u> |
|--|----------------|
| (a) They wanted a job and thought of the return from the business primarily in terms of the wage they would earn by working in the business.   | _____          |
| (b) Of a chance occurrence   | _____          |
| (c) They wanted to maximize their income and thought of the return from the business in terms of the return on the money and other assets they invested in the business as well as the return on their labour. | _____          |
| (d) Other (Specify)  | _____          |

- (12) From your experience with new business formations (since 1967), what percent of the people who started businesses and also attended college, majored in the following fields?

- |                              | <u>Percent</u> |
|------------------------------|----------------|
| 1. Business                  | _____          |
| 2. Engineering               | _____          |
| 3. Liberal Arts - Arts       | _____          |
| 4. Liberal Arts - Science    | _____          |
| 5. Graduate and Professional | _____          |
| 6. Other - Specify           | _____          |

- (13) From your experience with new business formations (since 1967), what percent of the individuals who organized the business resided in the county at the time they had the idea to start the business? \_\_\_\_\_

#### SECTION IV

The information you have given us about new business formations in the preceding section was based upon your own experience. If you feel that your experiences are not typical of business formations in general, will you tell us in what ways the typical pattern differs from what you described?

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## SECTION V

This section deals with factors affecting the time required to complete business formations.

- (1) What factors do you feel are most responsible for delays or failures in organizing new businesses?

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- (2) What factors do you feel are most responsible for the success of new business formations?

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- (3) Could you estimate how many new business formations you have assisted in the last three years?

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